

For students, parents a fortuitous error

It's one of those classic, only-in-Washington situations: In December, Congress passed a bill designed to cut the federal deficit — and made a mistake. One of the “money-saving” measures in the bill (in fact, a money-raising measure) increased the interest rate on guaranteed student loans made to parents from 7.9 percent to 8.5 percent. However, in their eagerness to get out of town before Christmas, members drafted the legislation in such a way that parents borrowing money using banks and other lending institutions make the new payment, while parents borrowing through the Direct Loan program, which comes directly from the government, will still be paying the older,

cheaper rate.

Congress had always intended to fix this anomaly, which kicks in on July 1. But in the meantime, the whole matter has become rather awkward. For one, the error drew attention to the little-noticed fact that parents of college students are being squeezed to pay down the deficit. There has also been some unseemly lobbying by banks — and, alarmingly, by some college financial aid officers — to get the government to raise the rates on the direct loans. Many school financial aid offices operate symbiotically with lending institutions, accepting gifts of equipment and other perks in exchange for directing students their way. Clearly, they didn't

relish competition from direct loans — nor did they seem to feel their role involved lobbying for lower rates all around.

The deepest irony, though, is that study after study has shown that direct loans are cheaper for taxpayers than loans that flow through middlemen. But because of the incentives that those middlemen offer colleges, not as many students wind up using the direct loans. Perhaps Congress should just leave its mistake in place, and let students start clamoring for the direct loans — which would, in the long term, help cut the federal deficit.

An editorial in The Washington Post.